



COUNTY OF LOS ANGELES

DEPARTMENT OF HUMAN RESOURCES

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MICHAEL J. HENRY
DIRECTOR OF PERSONNEL

December 19, 2006

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

ALTERNATIVES TO KAISER HMO HEALTH PLAN (3 VOTES)

JOINT RECOMMENDATION WITH THE CHIEF ADMINISTRATIVE OFFICER (CAO) THAT YOUR BOARD:

1. Instruct the CAO and Director of Personnel to jointly explore alternatives to the Kaiser HMO Health Plan for County employees by marketing the plan to the health plan community, retain the County consultant Mercer Human Resources Consulting (Mercer) to assist in this work, seek the cooperation of Local 660 and the Coalition of County Unions via their respective labor-management committees (Benefits Administration Committee and Employee Benefits Administration Committee), and report findings and recommendations to the Board no later than June 15, 2007.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

In accordance with the Board of Supervisors' policy, all health carriers must fully justify their premium rates each year. For the past few years, the County's rate renewal negotiations with Kaiser have been problematic, and at times contentious, leaving key issues unresolved. Kaiser continues to be the highest priced County sponsored HMO for represented employees, and continues to be unwilling to provide Mercer information necessary to reconcile Kaiser's rate development.

Although an audit of Kaiser's 2007 renewal is currently underway, Kaiser is not willing to agree to a provision to renegotiate rates, as ordered by the Board, if the audit finds the rates are not justified.

Therefore, we recommend exploring alternative health plans to Kaiser that can provide County employees with quality and perhaps more cost effective health care options.

Implementation of Strategic Plan Goals

The recommended action is consistent with the principles of the Countywide Strategic Plan by promoting the well being of County employees and their families by offering comprehensive employee benefits.

FISCAL IMPACT/FINANCING

Any incurred costs will be covered in the FY 2006-2007 Budget.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The negotiation process with Kaiser for the 2007 premium rates was, to a large extent, unsatisfactory, since many old and new issues remained unresolved. In 2006, Kaiser introduced its new National Pricing Rating Methodology, which uses client specific experience to develop rates. Kaiser was unable to produce the underlying data necessary to support and justify its 2007 rates. Kaiser continues to be more expensive than the competing HMO plans for represented employees: the 2007 rates are 23% higher than PacifiCare rates and 21% higher than the CIGNA rates. The current unresolved issues include the following:

- Necessity for Kaiser to provide detailed medical and prescription drug claims pricing schedule and utilization data to support its rate development and significant rate increase.
- Explain change in administration costs.
- Explain and provide supporting data for an increase in inpatient hospital claims.
- Develop an action plan on the opening of the South L.A. clinic, which Kaiser committed to in 2005 for 2006.

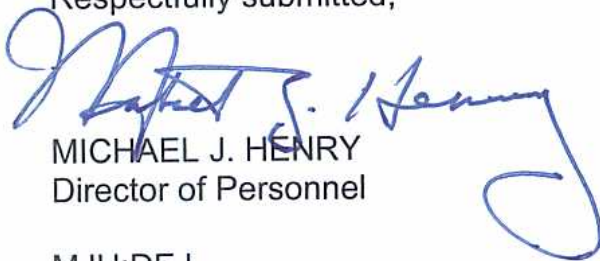
On September 12, 2006, your Board conditioned its approval of Kaiser's rates upon: 1) receipt and verification of data used to establish Kaiser's rates; 2) a provision to allow for renegotiation of the rates if they are not justified; and 3) the CAO and Director of Personnel to report the results of Mercer's audit by February 15, 2007.

To date, Kaiser has provided some data, but it is incomplete, and Mercer is currently negotiating with Kaiser to obtain the needed information. Kaiser has stated that the rates are final, regardless of what an audit shows, and there will be no renegotiations.

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Based on Kaiser's current position and the need to provide County employees with affordable quality health care, the CAO and Director of Personnel concur that the County must explore other alternatives to Kaiser by marketing the plan.

Respectfully submitted,



MICHAEL J. HENRY
Director of Personnel



DAVID E. JANSSEN
Chief Administrative Officer

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c: County Counsel
Executive Office, Board of Supervisors
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H:board.letter.kaiser.alternatives